

AR51

EDDY MATCH COMPANY, LIMITED ANNUAL REPORT 1970

HIGHLIGHTS

OPERATING SUMMARY	1970	1969
Net sales.....	\$37,314,000	\$40,852,000
Depreciation and depletion.....	1,424,000	1,342,000
Net results:		
Net (loss) income from operations	(892,000)	405,000
Extraordinary item.....	(1,244,000)	—
Total.....	(2,136,000)	405,000
Dividends paid:		
Preferred shares.....	56,000	56,000
Common shares.....	—	301,000
FINANCIAL POSITION		
Net current assets.....	\$ 7,028,000	\$ 8,906,000
Total assets.....	26,851,000	30,037,000
Shareholders' equity.....	13,414,000	15,605,000
PER COMMON SHARE		
Net (loss) earnings:		
From operations.....	\$ (3.15)	\$ 1.16
Extraordinary item.....	(4.13)	—
Total.....	(7.28)	1.16
Dividend paid.....	—	1.00
Equity	40.73	48.01
CAPITAL EXPENDITURES.....	\$ 1,212,000	\$ 2,770,000

The Annual Meeting of Shareholders will be held on April 14th, 1971 at 11:00 a.m., E.S.T., in the offices of the Company, tenth floor, at 7 King Street East, Toronto, Ontario.

REPORT TO THE SHAREHOLDERS

The year 1970 resulted in a loss of \$2,136,000, equal to \$7.28 per common share, of which \$892,000, or \$3.15 per share was an operating loss and \$1,244,000, or \$4.13 per share was an extraordinary loss. This compares to a profit of \$1.16 per common share in 1969. In 1970, dividends of \$55,500 were paid on the preferred shares. There were no dividends paid on the common shares.

Consolidated net sales were \$37,314,000, as compared to \$40,852,000 in 1969, a decrease of \$3,538,000 or 8.7%. Sales increased in the match division and in the vending machine division but decreases were recorded in building products and in the office furniture division.

Our lumber and plywood operations located in British Columbia suffered very substantial losses throughout the whole year, primarily as the result of depressed prices in both the United States and Canadian markets and also because of increasing costs.

The extraordinary loss of \$1,244,000 arose from the decision made last November to close out Grant Industries—a national distributor of building products. Grant Industries has not contributed earnings to a satisfactory level in recent years and was becoming an increasing burden on the financial resources of your Company.

Shareholders

At December 31, 1970 the Company had 742 Common Shareholders. The distribution was as follows:

Country of residence	Number of common shares held	Number of shareholders
Canada.....	101,806	721
United Kingdom...	197,315	8
U.S.A.....	852	8
Other.....	980	5
	<u>300,953</u>	<u>742</u>

The British Match Corporation Limited, through its wholly-owned subsidiary Bryant & May (Holdings) Ltd., owns 196,890 common and all the preferred shares of Eddy Match stock.

As the Company is deemed to be a corporation that has a degree of Canadian ownership, as defined in the Canadian Income Tax Act, non-resident shareholders are subject to a Canadian withholding tax on dividends of 10 per cent, instead of the prevailing rate of 15 per cent.

Match Division

While sales of matches increased, net profit was slightly below 1969, directly as the result of a decision made in the first quarter to defer a price increase until the year-end. This was done to conform with the request of the Prices and Incomes Commission, Ottawa, to hold the line on prices, thereby complying with the Government's anti-inflation measures. We look for continued satisfactory sales and earnings in 1971. In addition to the 12% Federal Sales Tax, matches are subject to a 10% Excise Tax, which was originally put on luxury items. We have made repeated appeals to Ottawa to have this extra tax on matches repealed, so far without success.

Eddy Industrial Products

The investment in this division is relatively small as it is primarily a service centre for other divisions of the Company. The operations produced a very small loss in 1970 compared to a small profit in 1969. Work for outside customers was at its lowest sales level in several years, however the backlog improved nicely toward the year-end. About 20 employees are on the payroll of Eddy Industrial Products which is located in Pembroke, Ontario.

Steel Equipment

The steel office furniture industry suffered a setback in growth pattern in 1970, especially during the second half of the year. While our Canadian sales decreased slightly, our sales to the United States had a serious drop as a result of the freeing of the Canadian dollar and the generally depressed business economy in that country. Our Canadian sales of Stor/Wal filing cabinets increased in spite of market conditions. The division's earnings were reduced to a small loss because additional costs were not offset by price increases.

Ideal Venders

Sales in our vending machine division started off at a slow pace early in 1970 and by mid-year were down modestly. During the last half of the year sales came back strongly and exceeded those of 1969. Sales for the whole year were up slightly, nevertheless total volume was insufficient and the division suffered a small loss. Prices were increased in December to offset the increasing costs of labour, material and freight. In the latter part of 1970, first shipments were made of a bread vending machine. Other types of vending machines are to be introduced during 1971 and while these could add strength to our overall market penetration, we do not expect they will add any significant contribution to profit in the near term.

Kootenay Forest Products—Stafford Mills

Late in 1970 we amalgamated Kootenay Forest Products and Stafford Mills into one operation and have temporarily closed Stafford Mills—a small sawmill situated about 15 miles from Nelson, British Columbia.

Operations in the year 1970 resulted in a large loss at these two locations. Prices of lumber sold to United States markets were much lower than in 1969 and in addition the freeing of the Canadian dollar reduced our mill net prices very substantially.

While volume of our plywood sales increased, average net selling prices were down over 20% from 1969.

In the second and third quarters, a new management team was brought into Kootenay Forest Products. They are making significant operational decisions and changes which are aimed at cost reduction, particularly in our woodlands operations.

A modernization program costing about \$1,000,000 has been authorized by the Board of Directors. These capital expenditures are aimed at further cost reductions and some expansion of the plywood production facilities, the full impact of which will not be realized until late in 1971, or early 1972.

A serious air pollution problem was finally overcome in 1970, at a cost of about \$195,000, which sum included a new waste burner. Previously, the Company spent about \$350,000 in unsuccessful attempts to solve the problem which was affecting the community of Nelson where our lumber and plywood mills are located.

Labour relations at Nelson greatly improved in 1970—a strike free year and the first since 1966. As a member of the British Columbia Southern Interior Lumber Manufacturers Association, during 1970 we signed a labour agreement which gave generous wage increases irrespective of the serious market conditions throughout the year. The current labour contract expires during 1972.

Grant Industries

Over the last three years the investment in Grant Industries has been between six and seven million dollars. The profit contribution was not satisfactory and in 1969 your Board decided to attempt to find a buyer. These efforts produced only unsatisfactory offers. The investment in Grant Industries

in November, when we announced the closing of this division, was \$6,275,000. When all receivables are collected, properties are sold and taxes are recovered, we estimate the loss to be \$1,244,000. The best offer we received on a purchase would have resulted in a much greater loss.

The Board of Directors and Officers

Last March, Mr. J. Douglas Gibson was elected Chairman of the Board of Directors, of which he has been a member since 1969. He succeeded Mr. L. M. Crandall who retired as Chairman having served in that capacity since 1952. Dr. J. M. Gillies was appointed to the Board in October.

Mr. R. S. Kavanagh was appointed Vice President—Finance and Treasurer and Mr. F. W. Smith was appointed Corporate Secretary on the retirement of Mr. S. H. Nienkirchen who faithfully served your Company since its inception in 1928.

Outlook for 1971

Your Board of Directors expects that your Company's results in 1971 will be improved over 1970. Prices and volume of plywood improved in the first quarter. The lumber markets in the United States show an improving trend. If these trends are maintained throughout 1971, we should have this division back on a profitable basis, although profits in the first six months may be extremely difficult to attain.

Recent price increases on matches and vending machines should improve the positions in these divisions. We expect a tight market to continue in office furniture for most, if not all, of 1971 and we are not optimistic that we will earn a satisfactory profit at Steel Equipment. This division has already enacted a cost cutting program.

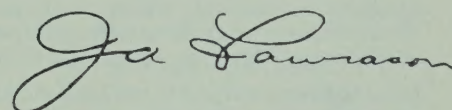
In our report for 1969 we said: "Your management is endeavouring to establish a solid base for sustained growth in the years ahead." A new highly qualified management team at Kootenay Forest Products, and the decision to close Grant Industries, were two major steps taken to establish a firmer base.

Additionally, our other operations are being reviewed to obtain a reasonable return on invested capital. While there are problems remaining, priorities have been established to resolve those which have the greatest impact on profits.

Appreciation

We gratefully acknowledge the confidence of our customers, the interest and support of our shareholders and the loyalty and co-operation of our employees during this past difficult year. In particular, we wish to express our appreciation to the employees of Grant Industries for their continued support during the close-down of the division.

On Behalf of the Board of Directors,



President and Chief Executive Officer

AUDITORS' REPORT

*To the Shareholders of
Eddy Match Company, Limited:*

We have examined the consolidated balance sheet of Eddy Match Company, Limited and its subsidiary companies as at December 31, 1970 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to such adjustments as may result from the final determination of the costs and losses on the closing of Grant Industries Division referred to in note 2, these financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Toronto, Canada,
February 26, 1971.

Chartered Accountants

EARNINGS

	1970	1969
NET SALES.....	\$37,314,212	\$40,852,243
COST OF SALES	32,435,495	33,360,252
GROSS EARNINGS.....	4,878,717	7,491,991
DEDUCT (add):		
Marketing and distribution expenses...	3,553,288	3,711,049
General and administrative expenses (note 4).....	1,980,142	2,121,809
Bank interest (net).....	272,646	67,841
Debenture interest (including amorti- zation of discount and expenses)...	510,704	515,209
Net loss on disposal of fixed assets (exclusive of losses included in extraordinary item).....	75,667	1,760
Gain on purchase of debentures for cancellation.....	(25,637)	—
	6,366,810	6,417,668
(LOSS) earnings before income taxes and extraordinary item.....	(1,488,093)	1,074,323
INCOME TAXES (recoverable) provided.....	(596,000)	669,000
NET (loss) earnings before extraordinary item.....	(892,093)	405,323
EXTRAORDINARY ITEM:		
Estimated costs and losses on closing Grant Industries Division (net of income taxes recoverable of \$899,000) (note 2).....	1,243,805	—
NET (loss) earnings for the year.....	\$ (2,135,898)	\$ 405,323
(LOSS) earnings per common share:		
Before extraordinary item.....	\$ (3.15)	\$ 1.16
Extraordinary item.....	(4.13)	—
NET (loss) earnings for the year.....	\$ (7.28)	\$ 1.16
Costs and expenses include the following:		
Depreciation (note 1).....	\$ 1,361,548	\$ 1,281,845
Depletion.....	61,993	60,244
	\$ 1,423,541	\$ 1,342,089

EDDY MATCH COMPANY, LIMITED CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED
DECEMBER 31, 1970
(with comparative figures for
the year 1969)

(See accompanying notes to
consolidated financial statements)

RETAINED EARNINGS

	1970	1969
BALANCE, beginning of year.....	\$6,648,056	\$6,423,697
NET (loss) earnings for the year.....	(2,135,898)	405,323
TRANSFER from excess of appraised value of fixed assets over depreciated cost (note 1)	300,518	175,489
	4,812,676	7,004,509
DIVIDENDS PAID:		
Preferred.....	55,500	55,500
Common.....	—	300,953
	55,500	356,453
BALANCE, end of year.....	\$4,757,176	\$6,648,056

EDDY MATCH COMPANY, LIMITED CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED
DECEMBER 31, 1970
(with comparative figures for
the year 1969)

(See accompanying notes to
consolidated financial statements)

BALANCE SHEET

EDDY MATCH COMPANY, LIMITED
(Incorporated under the laws
of Canada)

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1970
(with comparative figures at
December 31, 1969)

ASSETS

	1970	1969
CURRENT:		
Cash.....	\$ 45,470	\$ 128,732
Accounts receivable —		
Trade less allowance for doubtful		
accounts (1970 — \$326,655;		
1969 — \$182,099).....	4,215,973	4,948,157
Other.....	708,017	278,330
Income taxes recoverable.....	703,553	—
Inventories of materials, work in pro-		
cess and finished goods valued at		
the lower of cost or net realizable		
value.....	6,516,253	8,888,826
Prepaid expenses.....	319,472	198,467
Total current assets	12,508,738	14,442,512
Land, plant and equipment held for sale, at		
estimated realizable value (note 2).....	1,288,923	—
FIXED:		
Land, plant and equip-		
ment (note 1).....	13,930,753	
Less accumulated		
depreciation.....	2,181,288	11,749,465
Timberlands and cutting		
rights (note 1).....	1,071,395	
Less accumulated		
depletion.....	122,237	949,158
Total fixed assets	12,698,623	15,207,230
OTHER:		
Debenture discount and expense less		
amortization.....	217,788	247,153
Timber sale deposits.....	136,616	140,581
	354,404	387,734
	<u>\$26,850,688</u>	<u>\$30,037,476</u>

EDDY MATCH COMPANY, LIMITED
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
YEAR ENDED
DECEMBER 31, 1970

NOTES

1. Fixed assets

On January 1, 1969, substantially all land, plant and equipment were restated in the accounts at depreciated replacement cost on the basis of appraisals made by Cooper Appraisals Limited in late 1968 and early 1969. Timberlands and certain minor equipment items were restated at their December 31, 1968 carrying values net of depreciation or depletion accumulated to that date. Subsequent additions are stated at cost.

During 1970 there was an adjustment by Cooper Appraisals Limited, to the useful lives of certain logging assets resulting in a reduction of \$103,106 in their depreciated replacement cost as at January 1, 1969, and the balances at December

31, 1969 have been restated accordingly. This adjustment did not materially affect depreciation recorded in the accounts.

The "Excess of appraisal value of fixed assets over depreciated cost" shown as part of shareholders' equity on the consolidated balance sheet is made up as follows:

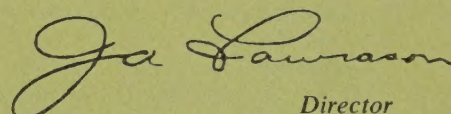
Balance December 31, 1969 —	
As previously reported	\$2,681,180
Deduct adjustment of original appraisal	103,106
As restated	2,578,074
Deduct transfer to retained earnings, representing amounts realized during 1970 through depreciation and disposals	300,518
Balance December 31, 1970	<u>\$2,277,556</u>

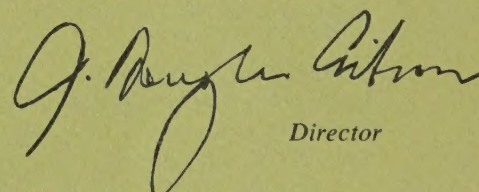
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LIABILITIES AND SHAREHOLDERS' EQUITY

	1970	1969
CURRENT:		
Bank indebtedness.....	\$ 2,512,268	\$ 2,779,300
Accounts payable and accrued charges..	2,008,319	2,528,169
Income and other taxes payable.....	144,561	186,717
Debenture interest payable.....	40,720	42,072
Provision for estimated future costs of closing Grant Industries Division (note 2).....	775,000	—
Total current liabilities.....	5,480,868	5,536,258
Deferred income taxes.....	580,300	1,396,300
6½% Sinking Fund Debenture Series A maturing 1972 — 1986 (note 3).....	7,376,000	7,500,000
SHAREHOLDERS' EQUITY:		
Capital—		
6% cumulative redeemable preferred shares of \$100 par value, entitled on voluntary liquidation or on redemption to \$125 per share:		
Authorized and issued—		
9,250 shares.....	925,000	925,000
Common shares without nominal or par value:		
Authorized—500,000 shares		
Issued —300,953 shares.....	5,453,788	5,453,788
	6,378,788	6,378,788
Excess of appraised value of fixed assets over depreciated cost (note 1).....	2,277,556	2,578,074
Retained earnings (note 3).....	4,757,176	6,648,056
	13,413,520	15,604,918
	\$26,850,688	\$30,037,476

On behalf of the Board:


Director


Director

2. Closing of Grant Industries Division

The company is in the process of closing its Grant Industries Division and disposing of all its assets. All costs of closing this division, both incurred and anticipated, are shown as an extraordinary item on the consolidated statement of earnings. Current assets have been written down to their estimated net realizable value on liquidation and a provision for estimated future closing expenses has been included in current liabilities. The fixed assets of the division have been written down to their estimated realizable value and are shown as a separate item in the balance sheet. The provisions for costs and losses on the closing of the division reflect the best current judgment of management but are subject to adjustment when the final amounts are known.

3. 6½% Sinking Fund Debentures — Series A

The debentures are secured by a floating charge on the company's assets. Sinking fund requirements during the next five years are as follows: 1971 — Nil; 1972 — \$300,000; 1973 — \$300,000; 1974 — \$375,000; 1975 — \$375,000.

During 1970 the company purchased \$124,000 of debentures for cancellation which will be applied to the 1972 sinking fund requirement. The trust indenture relating to the debentures contains certain restrictions on the payment of dividends on common shares. As a result of these restrictions, dividends on common shares may not be paid out of consolidated retained earnings accumulated at December 31, 1970 and may be paid in future years only to the extent that subsequent earnings as defined exceed approximately \$550,000.

4. Remuneration of directors and officers

During 1970, the aggregate remuneration of the company's eleven directors as directors was \$36,150 and of the company's eight officers as officers was \$146,088. Five of the directors were also officers. During 1969, the aggregate remuneration of the company's twelve directors as directors was \$25,725 and of the company's six officers as officers was \$198,541. Five of the directors were also officers.

5. Commitments

The company has authorized capital expenditures of approximately \$1,250,000 of which approximately \$535,000 was committed at December 31, 1970.

6. Comparative information

Certain comparative figures for 1969 have been restated to conform with presentation and classifications adopted in 1970.

SOURCE AND USE OF FUNDS

	1970	1969
USE OF FUNDS:		
Net loss (earnings) for the year.....	\$ 2,135,898	\$ (405,323)
Add (deduct) —		
Depreciation and depletion.....	(1,423,541)	(1,342,089)
Amortization of debenture discount and expense.....	(29,365)	(27,709)
Deferred income taxes.....	816,000	(30,000)
Incurred and estimated losses on dis- posal of fixed assets.....	(587,139)	(1,760)
Total funds used in (provided by) operations.....	911,853	(1,806,881)
Expenditures on fixed assets.....	1,211,504	2,770,482
Debentures purchased for cancellation....	124,000	—
Dividends paid.....	55,500	356,453
	<u>2,302,857</u>	<u>1,320,054</u>
SOURCE OF FUNDS:		
Decrease in other assets.....	3,965	129,061
Proceeds on disposal of fixed assets.....	420,508	77,270
	<u>424,473</u>	<u>206,331</u>
Decrease in working capital.....	\$ 1,878,384	\$ 1,113,723
Working capital, beginning of year:		
Current assets.....	\$14,442,512	\$14,521,145
Current liabilities.....	5,536,258	4,501,168
	<u>8,906,254</u>	<u>10,019,977</u>
Working capital, end of year:		
Current assets.....	12,508,738	14,442,512
Current liabilities.....	5,480,868	5,536,258
	<u>7,027,870</u>	<u>8,906,254</u>
Decrease in working capital.....	<u>\$ 1,878,384</u>	<u>\$ 1,113,723</u>

EDDY MATCH COMPANY, LIMITED
CONSOLIDATED STATEMENT OF
SOURCE AND USE OF FUNDS
FOR THE YEAR ENDED
DECEMBER 31, 1970
*(with comparative figures for the
year 1969)*

*(See accompanying notes to
consolidated financial statements)*

FINANCIAL REVIEW

The consolidated financial statements include the results of operations for 1970 and the financial position of Eddy Match Company, Limited and its subsidiaries, all of which are wholly owned. The operations are carried on by divisions of the Company, but certain of the assets are owned by subsidiary companies.

ASSETS and LIABILITIES

The working capital at December 31, for each of the years 1970 and 1969, is compared below:

	1970	1969
CURRENT ASSETS:		
Cash.....	\$ 45,000	\$ 129,000
Trade and miscellaneous accounts receivable (net).....	4,924,000	5,226,000
Income taxes recoverable.....	704,000	—
Inventories.....	6,516,000	8,889,000
Prepaid expenses.....	320,000	198,000
	<u>12,509,000</u>	<u>14,442,000</u>
LESS CURRENT LIABILITIES:		
Bank indebtedness.....	\$ 2,512,000	\$ 2,779,000
Provision for estimated future costs of closing the Grant Industries Division.....	775,000	—
Other.....	2,194,000	2,757,000
	<u>5,481,000</u>	<u>5,536,000</u>
WORKING CAPITAL.....	\$ 7,028,000	\$ 8,906,000
Ratio of current assets to current liabilities.....	2.3 to 1	2.6 to 1
Net decrease in working capital.....	\$ 1,878,000	\$ 1,114,000

The accounts receivable trade were owing on sales made under normal credit terms. Adequate provision has been made for those accounts of a doubtful nature. The allowance for doubtful accounts includes \$250,000 to cover potential losses in collecting Grant Industries accounts.

Income taxes recoverable represent monies already paid to the taxing authorities that will be refunded. This amount is basically the taxes paid on the Company's 1969 income.

Inventories at December 31, were valued at the lower of cost or net realizable value and consisted of the following:

	1970	1969
Raw materials.....	\$3,640,000	\$3,165,000
Work in process.....	961,000	964,000
Finished goods and stock-in-trade.....	1,915,000	4,760,000
	<u>\$6,516,000</u>	<u>\$8,889,000</u>

Land, plant and equipment, as shown on the Balance Sheet consisted of the following:

	Gross Value	Accumulated Depreciation	Net Book Value
Land and roadways.....	\$ 2,122,000	\$ 795,000	\$ 1,327,000
Buildings and leaseholds....	4,899,000	394,000	4,505,000
Machinery and equipment..	6,806,000	993,000	5,813,000
Tooling.....	104,000	—	104,000
	<u>\$13,931,000</u>	<u>\$ 2,182,000</u>	<u>\$11,749,000</u>

The Company follows a policy of having its plant and equipment revalued every ten years. As a result, substantially all of the land, buildings and equipment are valued at depreciated replacement cost, determined by Cooper Appraisals Limited as of January 1, 1969, with subsequent additions at cost. Concurrent with the recording of the appraisal, timberlands were restated at their net book value as of January 1, 1969.

The appraisal increase from the above revaluation has been credited to a separate account in the Shareholders' Equity section of the Balance Sheet. Depreciation charges have been based on the appraised assets values, where applicable, and amounts equal to the resulting increase in depreciation have been transferred from the account 'Excess of Appraised Value of Fixed Assets over Depreciated Cost' to 'Retained Earnings'. A similar transfer has been made on the disposal of an appraised asset for any portion of the appraisal increase that had not been depreciated prior to the disposal of the asset. The net result of the 1969 appraisal was an increase in the fixed asset values of \$2,647,000. Of this amount, \$476,000 has been transferred to Retained Earnings including \$301,000 in 1970, in accordance with the above policy.

The expenditures on capital assets, which totalled \$1,212,000 during the year, included the following significant items:

Logging Road construction	\$475,000
Waste burner	195,000
Sawmill, plywood and logging equipment	230,000

Depreciation is provided on fixed assets (other than land and roads) at rates designed to write off such assets on the 'straight line' method over their remaining useful lives. Timberlands, cutting rights and roads are amortized at rates based on the volume of logs produced.

As mentioned in the Report to Shareholders, the Company is planning a number of capital expenditures during 1971. At December 31, 1970 contracts had been signed for the purchase of fixed assets totalling \$535,000.

(over)

FINANCIAL REVIEW (cont.)

On June 1, 1966 the Company issued \$7,500,000 of 6½% Sinking Fund Debentures, Series 'A' which mature on June 1, 1986. The Company has adopted a policy of purchasing these Debentures on the open market when they are available at a favourable price. Debentures so purchased are cancelled and will be applied against the required Sinking Fund payments. The annual Sinking Fund requirements are as follows:

1972 and 1973	\$300,000
1974 to 1976— both inclusive	375,000
1977 to 1980— both inclusive	525,000
1981 to 1985— both inclusive	600,000

To December 31, 1970 the Company had purchased \$124,000 of Debentures to apply against the 1972 Sinking Fund payment.

The debenture interest for 1970 was \$483,883. This amount was approximately equal to the 1970 earnings before providing for depreciation, depletion, amortization, debenture interest, loss on disposal of fixed assets, income taxes recoverable and the extraordinary loss on the closing of Grant Industries.

Earnings

As a result of the revaluations of fixed assets up to depreciated replacement cost, the 1970 loss was increased by additional depreciation amounting to approximately \$244,000 without any income tax relief, as depreciation on appraisal increases is not a deductible expense for income tax purposes. This explains the low effective rate of tax recovery.

As the depressed market for lumber had not made a significant recovery at the time of preparing these statements, the inventory of finished lumber and sawlogs was written down to net realizable value (estimated selling price less selling and production costs) with a resulting charge of \$363,000 to earnings. If the market improves sufficiently before the inventory is utilized, this charge will be recovered proportionately.

The Company is in the process of closing its Grant Industries Division and disposing of all its assets. The division effectively ceased all operations at the end of February, 1971. All costs of closing this division, both incurred and anticipated, are shown as an extraordinary

item on the Consolidated Statement of Earnings. These costs include \$465,000 for severance pay to the approximately 200 employees whose services have or will be terminated. Accounts receivable and inventories on hand at the end of the year have been written down to their estimated net realizable value on liquidation. The provision for estimated future closing expenses in 1971 has been included in current liabilities.

As of December 31, 1970 the Company still had to dispose of Grant Industries fixed assets, principally real estate, valued at

\$1,573,000. These assets have been written down to an estimated realizable value of \$1,289,000 which is shown as a separate item in the Balance Sheet.

The provisions for the 1971 costs and losses on the closing of the division reflect the best current judgment of management but are subject to change when the final amounts are known.

The disposal of the Grant Industries Division will result in a significant drop in net sales in future years. The net sales of this division were \$19,142,000 in 1970 and \$20,753,000 in 1969.

TEN YEAR SUMMARY

(all dollars in thousands, except per share statistics)

SALES AND EARNINGS

Net sales	
Depreciation and depletion.....	
Earnings (loss) before taxes on income.....	
Taxes on income—current.....	
—deferred.....	
Net earnings (loss).....	
Net earnings (loss) per common share	

DIVIDEND RECORD

On preferred shares	
On common shares	
Paid per common share	
As a percent of common share earnings.....	

STOCK MARKET PRICE RANGE

Common shares	
---------------------	--

FINANCIAL POSITION

Current assets.....	
Current liabilities.....	
Working capital.....	
Ratio of current assets to current liabilities.....	
Capital assets at net book value.....	
Funded debt	
Capital employed—December 31	
Earnings as a percent of capital employed—January 1	

EQUITY OF SHAREHOLDERS

Equity of preferred shareholders	
Equity of common shareholders	
Equity per common share	
Common share earnings as a percent of common share equity—January 1	

CAPITAL EXPENDITURES (net).....

* 1963 data includes operations of Grant Industries from March 1.

The Company follows the deferred method of accounting for income taxes. Under this method, income taxes charged against income are computed with reference to depreciation recorded on asset costs, rather than to allowances claimed for income tax purposes. The tax effect of the resulting difference, shown as deferred income taxes in the statements, has been reduced by the amount that estimated taxes recoverable on the loss for 1970 exceed income taxes already paid and which are refundable.

1970	1969	1968	1967	1966	1965	1964	1963*	1962	1961
\$37,314	\$40,852	\$34,877	\$33,321	\$31,512	\$28,322	\$27,200	\$23,645	\$12,139	\$12,040
1,424	1,342	974	918	767	845	785	629	527	549
(3,631)	1,074	1,455	1,378	2,420	2,238	2,520	2,685	2,235	2,015
(679)	639	876	301	715	1,082	1,210	1,234	1,050	1,021
(816)	30	(38)	437	558	111	80	105	26	25
(2,136)	405	708	641	1,147	1,045	1,230	1,345	1,159	970
(7.28)	1.16	2.17	1.94	3.63	3.29	3.90	4.29	3.67	3.03
56	56	56	56	56	56	56	56	56	56
NIL	301	NIL	602	602	602	602	527	451	451
NIL	1.00	NIL	2.00	2.00	2.00	2.00	1.75	1.50	1.50
N/A	86	N/A	103	55	61	51	41	41	50
21-11	40½-20½	30½-16	37½-26	39-31	48-36½	49½-39¾	39¾-30	34½-27½	34½-25
12,509	14,442	14,521	13,286	14,091	10,809	9,189	8,668	6,794	6,006
5,481	5,536	4,501	3,825	3,906	6,484	5,147	5,044	1,981	2,321
7,028	8,906	10,020	9,461	10,185	4,325	4,042	3,624	4,813	3,685
2.3	2.6	3.2	3.5	3.6	1.7	1.8	1.7	3.4	2.6
12,699	15,207	11,067	10,860	9,885	7,701	7,522	7,316	5,358	5,903
7,376	7,500	7,500	7,500	7,500	—	—	—	—	—
21,370	24,501	21,776	21,162	20,741	12,194	11,696	11,094	10,260	9,706
N/A	1.7	3.3	3.1	9.4	8.9	11.1	13.1	11.9	10.4
1,156	1,156	1,156	1,156	1,156	1,156	1,156	1,156	1,156	1,156
12,257	14,449	11,753	11,101	11,118	10,628	10,241	9,668	8,905	8,337
40.73	48.01	39.05	36.89	36.94	35.31	34.03	32.12	29.59	27.70
N/A	2.4	5.9	5.3	10.3	9.7	12.1	14.5	13.2	11.5
204	2,691	1,190	1,939	2,987	1,011	1,072	2,649	426	572

DIRECTORS

J. N. COLE

Vice-President, Wood Gundy
Securities Limited, Montreal,
Quebec

L. M. CRANDALL

Director, Eddy Match Company,
Limited, Pembroke, Ontario

Hon. E. Davie FULTON

Partner, Fulton, Cumming, Bird,
Richards, Barristers and Solicitors,
Vancouver, British Columbia

J. Douglas GIBSON

Financial and Economic Consultant,
Toronto, Ontario

I. H. G. GILBERT

Chairman, Bryant & May (Holdings)
Ltd., London, England

J. M. GILLIES

Dean of Administrative Studies,
York University, Toronto, Ontario

J.-Claude HÉBERT

President, Warnock Hersey
International Limited, Montreal,
Quebec

J. A. LAWRASON

President & Chief Executive Officer,
Eddy Match Company, Limited,
Toronto, Ontario

G. RAE SMITH

Director, Bryant & May (Holdings)
Ltd., London, England

OFFICERS

J. Douglas GIBSON

Chairman of the Board

J. A. LAWRASON

President & Chief Executive Officer

R. S. KAVANAGH

Vice-President and Treasurer

F. W. SMITH

Secretary

Transfer Agents and Registrar

Montreal Trust Company, Montreal,
Toronto, Regina, Calgary and
Vancouver

Debenture Trustee

Montreal Trust Company, Toronto,
Ontario

Auditors

Clarkson, Gordon & Company,
Toronto, Ontario

Stock Exchanges

Montreal Stock Exchange
Toronto Stock Exchange

PLANTS, PRODUCTS & SALES OFFICES

Eddy Match

<i>Wood and book matches</i>	Administrative office and plant	Pembroke, Ont.
	Sales offices	Montreal, Que. Toronto, Ont. Vancouver, B.C.

Steel Equipment

<i>Office furniture</i>	Administrative office and plant	Pembroke, Ont.
	Sales offices	Montreal, Que. Toronto, Ont.

Ideal Venders

<i>Vending machines and coolers</i>	Administrative office and plant	Deseronto, Ont.
	Sales offices	Montreal, Que. Toronto, Ont.

Kootenay Forest Products

<i>Softwood plywoods Lumber and wood products</i>	Administrative office and mills	Nelson, B.C.
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Six Months
Interim Report

for the period ended June 30, 1970

file

EDDY MATCH
COMPANY
LIMITED

INTERIM
CONSOLIDATED STATEMENT OF EARNINGS

	Six Months ended June 30 1970	Six Months ended June 30 1969
Sales	\$17,155,000	\$19,883,000
Cost of Sales	14,902,000	16,201,000
	<u>\$ 2,253,000</u>	<u>\$ 3,682,000</u>
<i>Deduct:</i>		
Marketing, general and administrative expenses	\$ 2,723,000	\$ 2,663,000
Interest expense (net)	374,000	238,000
	<u>\$ 3,097,000</u>	<u>\$ 2,901,000</u>
(Loss) profit before deducting income taxes	\$ (844,000)	\$ 781,000
Provision for income taxes (recoverable) payable	(377,000)	486,000
Net (loss) profit for the six-month period	<u>\$ (467,000)</u>	<u>\$ 295,000</u>
Depreciation and depletion included in the above	\$ 565,652	\$ 487,800
Number of common shares outstanding	300,953	300,953
(Loss) earnings per common share (after provision for dividends on preference shares)	<u>\$ (1.65)</u>	<u>\$.89</u>
Dividends declared and paid on common shares	—	\$.50

INTERIM
CONSOLIDATED STATEMENT OF SOURCE and USE OF FUNDS

	Six Months ended June 30 1970	Six Months ended June 30 1969*
<i>Use of Funds:</i>		
Expenditures on fixed assets	\$ 374,000	\$ 1,596,000
Dividends paid	28,000	178,000
Increase in other assets	12,000	40,000
Purchase and cancellation of Series A Debenture	40,000	—
Total	<u>\$ 454,000</u>	<u>\$ 1,814,000</u>
<i>Source of Funds:</i>		
Net (loss) profit for the period	\$ (467,000)	\$ 295,000
Add back charges against earnings which did not involve a current outlay of funds	656,000	758,000
Proceeds on the sale of fixed assets	53,000	31,000
Total	<u>\$ 242,000</u>	<u>\$ 1,084,000</u>
Decrease in working capital	<u>\$ 212,000</u>	<u>\$ 730,000</u>

The above figures are subject to audit and year end adjustments.

Six Months' Report to Shareholders

The results in the second quarter followed the same depressed pattern as experienced in the first quarter. In the first six months, our loss was \$467,000, or \$1.65 per common share, compared to a restated profit of \$0.89 per share earned in the same period a year earlier. Consolidated Net Sales decreased 14%.

Sales in each of the three operating units within the Building Products Division were down from a year ago and each had a significant loss. Most of the decrease of \$2,728,000 in Consolidated Net Sales occurred in this division, which continued to feel the effects of a decrease of 42% in urban housing starts in Canada during the first six months. For similar reasons, the lumber markets in the U.S.A. continued in a depressed state. The freeing of the Canadian dollar had an adverse effect on net selling prices of lumber and office furniture.

While we have had some encouraging indicators show up in the month of June, we do not anticipate any substantial turnaround in the second half of the year and expect results for 1970 to be poor. No dividend on common shares is likely.